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Approved by:

Lana Bennett, Agricultural Counselor
U.S. Embassy Riga

Prepared by:

Jolanta Andersone, Agricultural Marketing Specialist

Report Highlights:

Estonia joined the EU on May 1, 2004. The accession affects on U.S. exports will be mixed since EU wide distribution systems will facilitate US imports to the small Estonian market of 1.3 million population, but for some commodities, the implementation of restrictive EU trade regimes may reduce sales and halt exports, ex. poultry. The Estonian food retail market holds considerable potential for a wide range of competitively priced packaged goods targeted at high/middle income groups. The inflow and fast development of large Nordic/European retail chains into Estonia along with other Baltic countries offer new opportunities for American exporters who can successfully connect with them.

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SECTION I: MARKET OVERVIEW

Growth of domestic expenditure and increased exports, supported by low interest rates, rising real incomes, and high investment demand, remain the main drivers of the economy. In 2003, the Estonian economy grew 5.1 percent, and growth accelerated to 6.8 percent in mid 2004, following Estonia's May 1, 2004 EU accession date. Per capita GDP of US\$ 6,690 was the largest among the three Baltic countries in 2003, although several times lower than the average among other countries of the European Union. The prices of goods and services rose on average by 1.2 percent.

Trade and investment in the country has also increased in the last decade due to business incentives. Among other incentives, Estonia does not tax corporations for re-invested profits. There is a very competitive work force, readily available and well educated. Stimulated in part by the expectation that Estonia would accede to the EU, the inflow of direct foreign investments amounted to 5.13 billion at the end of 2003, an annual increase of 27 percent. Swedish companies accounted for the largest share (42.8 percent) of foreign direct investments in Estonia, followed by Finland (27 percent). U.S. companies accounted for a 5.5 percent share. The fast-developing consolidation of retail outlets through investment by large Scandinavian chains has led to the construction of ultra-modern, self-service, fully-assorted supermarkets and hypermarkets that may provide new opportunities for exporters who can successfully connect with these companies. The major investment in the Estonian food and agriculture sector is the Coca-Cola Beverages bottling plant in Tallinn, supplying the Baltic States. Investment will continue to increase and there may be opportunities for U.S. suppliers of inputs to these operations.

In 2003, the domestic retail grocery sales were US\$ 948 million, of which food products accounted for US\$ 685 million. The remainder consisted of alcoholic beverages and tobacco products. Imported foods added much to the variety of products on the market and accounted for nearly 35 percent by value. Consumption patterns and demand for imported food products have been affected by increased consumer purchasing power, an increase in the expatriate community, and the growth of tourism.

The agri-food sector plays a slowly declining but fundamental role in the national economy and in the trade balance. Agricultural trade accounted for US\$ 337 million in exports and US\$ 591 million in imports in 2003 (excluding forest products). Estonian forest products dominate Estonia's exports, and were valued US\$ 674 million in 2003 (15 percent share of country's total exports). The most significant agricultural imports included beverages, meat products, fresh and preserved fruits and vegetables, coffee, tea, cotton and animal feeds. Over 60 percent of Estonia's food imports originated from the EU.

The agricultural sector has many traditional ties to the United States, especially in the area of genetics. Estonia's imports of U.S. agricultural and food products totaled US\$ 26.8 million in 2003. The U.S. accounted for 33 percent of Estonia's imports of poultry for its domestic market (7.8 thousand MT, US\$ 6.1 million). Other major U.S. exports were cotton (US\$ 4.61 million) and fish (US\$ 4.1 million, of which 20 percent was surimi paste). US agricultural imports from Estonia totaled US\$ 11.2 million in 2003, and included beverages, frozen fish and canned fish preparations. In addition, U.S. imported US\$ 14 million of Estonian wood products.

In January 2004, the population of Estonia was 1.351 million people, which represents a decline by almost 8 percent over the past decade due to lowered birth rates and migration.

Business and tourist travel to Estonia has increased since it voted in favor of joining the EU and it will continue to increase.

In 2003, the fast-growing tourism business brought 3.45 million visitors to Estonia, mostly Finns and Swedes. Estonia can play an extremely important role, for western companies aiming to be based within the EU. Tallinn, the capital city of Estonia, is rising as a strategic hub, linking northern Europe with the St. Petersburg region in the Northwest of Russia with a population of 44 million, as well as Belarus with a total of 10.3 million people, and with the aggregate Baltic market with a combined population of almost 8 million.

ADVANTAGES	CHALLENGES
Retail sector is by far the largest market for imported food. Large retail chains are developing economies of scale in purchasing.	Long-established consumer preference for domestic fresh products with no additives. Strong competition on the local market between domestic producers and increasing imports from EU
Purchasing power of the population is on the rise	Small market of 1.3 million; small delivery volumes required
Growing and substantial HRI sector interested in high-value products	Variety is of growing importance to Estonian consumers
The country is viewed as a gateway to larger markets in Northwestern Russia, Ukraine, and Belarus.	Strong European competition. The EU tariff schedule disadvantages U.S. exports vis-à-vis products from European Union member countries
The general image of U.S. products is positive	Minimum volumes required by U.S. exporters may be too large for the Estonian market. Consolidation of varied products in a shipment is of major interest.
Purchases by tourists and transit shoppers are large and growing	Restrictive EU trade regimes applied (Hormone beef, GMOs, poultry)
Unexplored commodity areas. Consumers associate imports with high quality	Estonian customers are unfamiliar with many U.S. products

SECTION II: EXPORTER BUSINESS TIPS

Local Business Practices and Customs

Entry Strategy

As a result of the fast-developing consolidation process, perhaps the most effective strategy for U.S. exporters would be to connect with European parent companies of the major food retail chains (mainly in Finland and Sweden) that are expanding their outlets in the Baltics. These chains already have a degree of familiarity with U.S. products and may supply their Estonian outlets through their central warehouses. Another strategy is to explore possibilities of consolidating shipments for Estonian importers who supply both the retail and HRI sectors.

Market entry strategies for U.S. food products should include:

- 1) Market research in order to estimate product opportunities.
- 2) Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating an experienced distributor or independent reliable agent/dealer with strategic distribution channels to advise on import duties, sanitary and phytosanitary regulations, and labelling requirements. It is advisable to initiate personal contact in order to discuss marketing matters such as funding for advertising, slotting allowance, in-store promotions and tasting events. Estonian importers will expect American traders to bring or send samples and quote prices in the early stages of negotiation. Suppliers may also wish to consider trade fair participation to raise awareness of the product.
- 4) Explore the purchasing arrangements of the larger retail chains.

U.S. products traditionally have lower customer awareness due to fewer promotional activities than those of domestic and European competitors. For many product categories, new market entrants will have to be aggressive to compete with the more established European suppliers, as their commercial relationships have been built up and maintained over the past decade.

Several constraints have contributed to the small market presence of U.S. food:

- Trade terms from U.S. companies tend to require advance payment of up to two months.
- An aversion to the assumption of exchange rate risks.
- Minimum quantities offered have often been too large for the small Estonian market (e.g. full container shipments).
- A perception that persists among Estonian importers is that landed costs of U.S. products will be higher compared to European products due to higher transportation costs.
- A perception that U.S. exporters are simply too far away to service the Estonian market.

Distribution

Distributors are moving toward direct deliveries with their own sales force and delivery trucks to service retail grocery stores and chains. The large, new grocery chains have developed their own warehousing and distribution centers to increase direct purchasing. Usually one exclusive agent/distributor is appointed to cover the entire country. Most Estonian importers represent several different product lines. Importers may serve a large customer themselves or work with dealer/distributors. Only a few wholesalers undertake nation-wide distribution, and almost none carries a complete range of products. Small and medium-size companies make their purchases of imported products through importers and wholesalers.

Consumer Tastes and Preferences

Consumption patterns appear to be dependent on income rather than price. Of the 1.3 million people of Estonia, 20 percent of the population has the purchasing power to live "Western lifestyles." Although Estonians have a preference for traditional domestic products, they are increasingly interested in trying new and different products and cuisine. Preferences for new products are strong among the younger population. Major factors in upper income purchasing decisions are quality, packaging, and brand recognition. Sellers cannot rely on brand power for sales and price premiums to the same extent as in other European countries. The brand recognition and brand loyalty is much stronger for the average Estonian consumer.

Women account for nearly 48 percent of the workforce and contribute to the increased demand for meals consumed away from home. With a large proportion of two-income families, most Estonian customers prefer meals that are quick to prepare. Therefore,

prepared, frozen and convenience food should be a key focus of US exporters. Income growth is mainly occurring in urban and suburban areas. Nearly 30 percent of the population lives in rural areas, however, in July 2004, the average gross monthly wage was US\$ 580, of which 29 percent was spent on food and alcohol. Consumer concern about the presence of genetically engineered products does exist to some extent, and there is a clear interest in local organic foods.

Food Standards and Regulations

Estonia is an EU member, effective May 1, 2004, and all shipments to Estonia must comply with EU import requirements (incl. certificates, plant lists, residues levels, required treatment procedures, etc.) and imposed bans. These requirements are available in the EU section of the FSIS Export Library of export requirements. Please visit <http://www.fsis.usda.gov/OFO/export/euroreqs.htm> and find [EU Additional Residue Testing Program](#) and requirements for exports of pork and beef to EU. U.S. origin poultry exports to EU were halted in 1997, after the EU imposed a ban on the use of chlorine as an antimicrobial compound. (Note: U.S. poultry producers use low-concentration chlorine as an antimicrobial treatment).

Labeling in the Estonian language, which includes product name, the name of the manufacturer or importer, the origin, a listing of ingredients, additives, net quantity, name and contact information for the importer, instructions of use, storage directions and expiration dates is required, and energy value, if decided so by producer. With regard to bio-engineered ingredients, Estonia will follow EU regulations and certification requirements. Importers should be consulted for proper labeling information that best suits for the intended distribution of imported goods.

General Import and Inspection Procedures

Trade relations with third countries are subject to the European Community's common trade policy, and EU model certificates are applied. Challenges in this market for U.S. exporters include tariff disadvantages vis-à-vis Estonia's trade with 25 EU member countries, since imports from the United States are facing EU import rates and requirements. The EU tariff schedule is available at: http://europa.eu.int/comm/taxation_customs/dds/en/home.htm

As an EU member, Estonia is affected by the EU applied market protection measures, import licenses, guarantee deposits, levies and standards that could lead import prices up. A guide to EU food laws and regulations is available at: <http://www.useu.be/AGRI/expguide>

Customs authorities require the following documentation for imported products: a copy of the contract, an invoice, a bill of lading, indication of the amount, weight and value of the goods and the original certificate of origin, as well as veterinary and phytosanitary certificates.

The EU entry ports are listed in 2001/881/EC regulation, by category of cargo (available at http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/1_32620011211en00440062.pdf)

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

Food Retail Sector

Retail sector is by far the largest market for imported food, due to the expansion of supermarkets. In 2003, grocery sales totalled US\$ 948 million, of which food accounted for US\$ 685 million or 72 percent. The remaining consisted of alcoholic beverages and tobacco products. Imported foods added much to the variety of products on the market and accounted for nearly 35 percent by value. Consumption patterns and demand for imported food products have been affected by increased consumer purchasing power, an increase in the expatriate community, and the growth of tourism. A 15 percent growth in retail food trade turnover is projected for 2005. In 2003, food was sold in 2,562 retail outlets, of which 112 were supermarkets. There were 12 retail food chains of broadly diverse sizes.

Nordic retail chains entered the Estonian retail market in the mid nineties and contributed to the consolidation of retail outlets. Several large self-service shopping centers with supermarkets and hypermarkets have emerged in suburbs of Tallinn. The large retail chains have observed that they are capturing market share from traditional farmers' markets. With the reduced price sensitivity of customers, the share of open-market food sales has fallen to 20 percent. Supermarkets have experienced growth, especially in the suburbs, accounting for a 45 percent share of food retail sector sales, at the expense of small shops. Currently, the food retail trade is largely controlled by only a handful of companies. Opportunities exist for new-to-market products - particularly for products marketed through the developing retail chains. Best prospects are in fish and seafood and convenience foods, and products of well-known brands. Given the relatively small consumer base in the Baltic region as a whole, the emergence of pan-Baltic food companies with centralized distribution schemes will help to achieve the economies of scale needed to make imports of a wider range of products viable.

For a new-to-market exporter targeting the Estonian food retail sector, it is advisable to find a professional wholesaler or a local agent with strategic distribution who is knowledgeable about the Estonian market and is able to negotiate and implement product introduction and promotion.

Food Processing Sector

The food industry yields about 4 percent of Estonia's GDP, and 4.4 percent of total exports. In 2003, the total output of the food industry amounted to US\$ 976 million, accounting for 22 percent of the country's total industrial sales. Raw inputs included fish, wheat flour, and meat, and valued over US\$ 350 million, of which about 40 percent was imported. The food industry has 15 sub-branches. Of the total gross output by food and beverages manufacturers, dairies accounted for 26 percent, the meat industry for 15 percent, beverage manufacturers for 19 percent, the fish industry for 11 percent, and bakeries accounted for 9 percent. With the expansion of this sector, the demand for imported agricultural product ingredients should also continue to rise. It should be noted that the choice of imported raw material might depend on the decisions made by the plant's foreign investors. Foreign investors, mostly Finns, have acquired significant interests in the Estonian food industry and strengthened their presence in the entire Baltic region. Given the relatively small consumer base in the Baltic region, pan-Baltic food companies are beginning to emerge to enhance the competitiveness of the region's food industry. The largest food processors purchase raw materials and food ingredients directly from foreign exporters and through their own networks. Such products include raw fish, surimi paste, meat, spices, spirits, juice

concentrates, wheat flour and condiments. US exporters should focus primarily on connecting with the larger players seeking direct relationships with foreign suppliers.

HRI Food Service Sector

A successful hotel/restaurant trade has rapidly developed in the past 3-4 years, in many cases as joint ventures with foreign firms. Tourism is also becoming more important and hotels and restaurants are demanding higher quality foods and services. In 2003, the 3.25 million visits of tourists to Estonia generated revenues of roughly US\$ 682 million. Eating out on a regular basis has become increasingly popular within the higher income groups, which account for 15 percent of the population. An additional 25 –30 percent eat out occasionally. Catering services are primarily undertaken by individual restaurants. In 2003, there were over 500 restaurants in the market. Of the fast food enterprises, the largest chains were McDonald's (U.S.), Hesburger (Finland), Peetri Pizza, and Pappa Pizza. The new fast food outlets and restaurants with international style cuisines such as Mexican, Chinese, Vietnamese, Italian and Indian, have begun to change the structure of the food service market. Chinese and Japanese fast food outlets have become popular at hypermarkets. Fresh products are the priority for a-la-carte restaurants, which purchase from both local suppliers and importers. Hotels and catering companies use a lot of imported food products, beverages, wine, and ingredients, which they purchase from local distributors or direct importers. Poultry, pork, fish and seafood, beverages, fruits, vegetables, nuts, sauces and spices are major imports. Major hotels include the Reval Hotelligrupp AS and the Scandic Hotels, each of which has 4 hotels in Estonia, and Viru Hotel and SAS Radisson.

SECTION IV: BEST HIGH VALUE PRODUCT PROSPECTS

There are opportunities for dry, chilled and frozen processed products, candies, snack foods, baking chocolate/chips, barbeque foods/sauces, fresh fruits, vegetables, seafood, nuts, ready prepared meals or quick-to-prepare dishes. Products which are rather unfamiliar to consumers but may present some potential include low fat, low salt, sugar-free and cholesterol free products.

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

Veterinary and Food Board

Vaike Paala 3

Tallinn 11415

ESTONIA

T: 372 638 0079

F: 372 6211441

Email: vet@vet.agri.ee

www.vet.agri.ee

Plant Products Inspectorate

Teaduse 2

Saku Harjumaa 75501

Estonia

T: 372 671 2602

F: 372 671 2604

Email: plant@plant.agri.ee
www.plant.agri.ee

Chamber of Agriculture and Commerce
Vilmsi 53b
10147 Tallinn
Estonia
T: 372 600 9349
F: 372 600 9350
www.epkk.ee

Estonian Enterprise Register
T: 372 6113841 F: 372 6460165
Email: eer@eer.ee
www.eer.ee

Estonian Chamber of Commerce and Industry
Toom-Kooli 17
Tallinn 10130
Estonia
T: 372 646 0244
F: 372 646 0245
www.koda.ee/english.html

Estonian Investment Agency
Roosikrantsi Street 11
Tallinn 10119
Estonia
T: 372 627 94 20
F: 372 627 94 27
info@eia.ee
www.eia.ee

Estonian companies database
Valge Register
www.roland.ee

Association of Estonian Fruit and Vegetable Wholesalers
Parnu mnt. 139c-513
Tallinn 11317
Estonia T: 372 50 66339
epkhl@anet.ee

For including your product offers into the Baltics regional virtual trade fair, check site
<http://www.food-fair.com>

For general questions about product import, please contact:
Foreign Agricultural Service
U.S. Embassy Riga
Raina Blvd. 7
Riga LV1510
Latvia
Tel: +371 7036 212, 371 7036 200
Fax: + 371 7820047

agrifa@usda.gov or visit the homepage of the regional Foreign Agricultural Service at U.S. Embassy Stockholm, Sweden: www.usemb.se/Agriculture
 For information on exporting U.S. agricultural products to other countries, please visit the USDA, Foreign Agricultural Service home page: www.fas.usda.gov

TABLE A. Key Trade and Demographic Information

Agricultural Imports From All Countries (\$Mil) /U.S. Market Share (percent)* /	
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (percent)* /	
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share (percent)* /	
Total Population (Millions)/Annual Growth Rate (percent)	1.351/-0.8
Urban Population (Millions)/Annual Growth Rate (percent)	0.9/-0.8
Number of Major Metropolitan Areas	1
Size of the Middle Class (Millions)/Growth Rate (percent)	0.6/N/A
Per Capita Gross Domestic Product (U.S. Dollars)	6,690
Unemployment Rate (percent)	5.4
Per Capita Food Expenditures (U.S. Dollars), year	546
Percent of Female Population Employed	48
Average Exchange Rate US\$1	13.9 EEK

* / Data from United Nations database

Note: Many products U.S. products are transshipped from European suppliers and do not appear on official statistics.

TABLE B. Consumer Food & Edible Fishery Product Imports**Estonia Imports**

(In Millions of Dollars)

	Imports from the World			Imports from the U.S.			U.S. Market Share		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
CONSUMER-ORIENTED AGRICULTURAL TOTAL	282	297	339	16	8	6	6	3	2
Snack Foods (Excl. Nuts)	27	27	30	1	1	1	0	0	0
Breakfast Cereals & Pancake Mix	3	3	3	0	0	1	0	0	0
Red Meats, Fresh/Chilled/Frozen	23	22	17	1	1	1	3	0	0
Red Meats, Prepared/Preserved	5	5	6	1	0	0	0	0	0
Poultry Meat	21	19	17	13	6	3	61	32	16
Dairy Products (Excl. Cheese)	24	24	16	0	0	1	0	0	3
Cheese	5	15	11	0	0	1	0	0	0
Eggs & Products	2	2	2	1	0	0	0	0	0
Fresh Fruit	23	26	27	1	1	1	0	0	0
Fresh Vegetables	9	12	14	1	1	1	0	0	0
Processed Fruit & Vegetables	19	19	30	1	1	1	2	3	2
Fruit & Vegetable Juices	12	8	5	1	1	1	0	0	0
Tree Nuts	2	2	2	1	1	1	39	43	40
Wine & Beer	20	18	22	1	1	1	2	2	2
Nursery Products & Cut Flowers	6	7	7	1	1	1	1	1	1
Pet Foods (Dog & Cat Food)	4	6	7	0	1	1	0	0	0
Other Consumer-Oriented Products	77	83	123	1	1	1	0	0	0
FISH & SEAFOOD PRODUCTS	30	43	60	1	2	2	3	4	3
Salmon	4	5	11	1	1	1	0	0	0
Surimi	3	4	8	1	1	1	16	26	18
Crustaceans	2	2	3	1	0	0	0	0	0
Groundfish & Flatfish	5	10	15	1	1	1	1	2	3
Molluscs	1	1	1	0	0	0	0	0	0
Other Fishery Products	16	22	23	1	1	0	1	2	0
AGRICULTURAL PRODUCTS TOTAL	535	567	652	24	22	14	4	4	2
AG, FISH & FORESTRY TOTAL	651	714	833	25	24	17	4	3	2

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Note: 2003 figures were not available at the time of this report

TABLE C. Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Estonia - Top 15 Suppliers**CONSUMER-ORIENTED AGRICULTURAL IMPORTS**

\$1,000	2000	2001	2002
Germany	21751	19760	52202
Finland	46780	53007	48594
Poland	20009	23079	24084
Denmark	18248	22431	23203
Sweden	14201	18780	20908
Netherlands	19969	18063	19529
Spain	10975	12360	15455
Hungary	9441	10839	13575
Latvia	10823	11704	13327
Lithuania	8597	9139	13027
France	11744	10051	10646
Italy	7563	8131	8676
Belgium	6063	6674	7308
Brazil	6117	6992	7303
Czech Republic	1708	3905	5827
Other	68154	62095	55712
World	282192	297067	339434

FISH & SEAFOOD PRODUCT IMPORTS

\$1,000	2000	2001	2002
Norway	8486	10529	19905
Russian Federation	6728	9330	10286
Chile	937	2764	4009
Lithuania	370	1312	2852
Netherlands	595	2232	2770
Sweden	2437	3792	2580
Finland	2455	1968	2145
United States	750	1595	1852
Denmark	882	1133	1705
United Kingdom	771	1078	1365
Ukraine	118	688	1206
France	56	386	1152
Germany	873	1881	1046
Argentina	301	321	1029
Thailand	153	158	928
Other	3647	3449	4981
World	29567	42618	59815

Source: United Nations Statistics Division

Note: 2003 figures were not available at the time of this report